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Integrated Reporting Practices: An Analysis of Indian Corporate Sector

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ABSTRACT

Now a days financial reporting is no longer just about producing financial information. Information seekers receive both financial and non-financial information. Integrated Reporting (IR) is a system for communicating financial and non-financial information in a single report. The current study aims to assess the current state of IR in India, as well as the level of compliance of IR disclosures by chosen corporations with IIRC recommendations, using secondary data. The study clearly indicated that all eight selected firms are sharing human, social, and relation capital-related information in a good manner, and that these companies' disclosure practices will serve as inspiration for other Indian companies to practices integrated reporting freely.

Keyword: Integrated Reporting, single report, financial information, relation capital

1.1 Introduction:

Today, financial reporting is more than just delivering financial information; it also provides non-financial information to information seekers. Integrated Reporting (IR) is a system for communicating financial and non-financial information in a single report. IR is analogous to a coin with two faces: one indicating an entity's financial performance and the other revealing its non-financial performance. An entity is seen differently if it discloses non-financial information to its stakeholders. Because metrics more than economic in nature are displayed, i.e., a company's performance on environmental, social, and governance

(ESG) practices are given, this extensively speaks to how sustainability is integrated into the entity's main business strategy. Furthermore, the annual report, which takes the form of an integrated report, attempts to provide a comprehensive assessment of the company's performance by linking financial and sustainability performance.

The primary goal of integrated reporting is to meet stakeholders' needs by studying and assessing the company's ability to produce and sustain value in the medium and long term. The primary goal encompasses the fundamental meaning of IR, which is not only to produce or blend financial and non-financial information, but also to link sustainability plan to business strategy and assist the organisation and its stakeholders in identifying non-financial interest areas. Specifically, the IR process is the integrated thinking that results in an organization's periodic integrated report on value creation and communication on value creation aspects. Thus an IR is an bridged and concise communication about how an organisation strategy , governance, performance and prospects helps in creating value in the short, medium and long-term.

1.2 Need for integrated reporting

- The necessity for integrated reporting arose from the rapid economic changes brought about by globalisation. By removing their borders, all nations became interconnected. Because of this interconnection, the world's finances, people, and knowledge are inextricably linked. As a result, the goal to promote and improve financial stability and sustainability by integrating investment decisions, company behaviour, and reporting issues has become increasingly important.
- Today's enterprises require a sophisticated system to report, communicate, and enhance operations and performance globally. It aims to focus more on its major events and trends and communicate this to its stakeholders. However, this is not achievable with the current reporting system, which is too sophisticated and insufficient to handle the task. Today's reports have a significant information gap, thus international agencies such as the World Bank and IMF are emphasising the importance of focusing on components that address both risk and future development, including sustainability challenges.
- Modern technology facilitates the flow of information in business, leading to increased transparency. IR is thus designed to improve accountability, stewardship, and trust in business processes.
- IR is designed in such a way that it provides investors with the information they need to make better capital allocation decisions on the one hand, while also allowing them to achieve greater long-term investment returns.

1.3 Qualitative feature of an integrated report

An integrated report must possess the following qualitative features:

- The report should highlight the firm's strategic actions for long-term growth.
- Integrated Reports must provide thorough and credible information to gain stakeholder confidence.
- The disclosure pattern in the reporting environment must be consistent and allow for easy comparison of information.

- Information in reports should be interdependent and connected, indicating interrelationships.
- The study should address stakeholder management for firms.
- The integrated disclosure report should be brief.
- An integrated report shows how a company can create value in short, medium, and long term.

1.4 IIRC and the global context of integrated reporting

The International Integrated Reporting Council (IIRC) is an international non-profit organisation based in England and Wales. It is a collaboration of regulators, investors, businesses, standard setters, the accounting profession, and other non-governmental organisations (NGOs). IIRC has been developing integrated reporting as a broad-based framework for business and investment decisions since 2010. According to the IIRC's 2017 integrated report, it has brought together over 70 international organisations with the common goal of making integrated reporting the global standard for companies around the world.

IIRC's objective is to make integrated reporting and thinking the standard in both the public and private sectors. It has a vision, too. To link capital allocation and company behaviour with broader aims of financial stability and sustainable development via the IR and thinking cycle. In line with the objective, many investors throughout the world are signing statements to demonstrate their commitment to investing decisions. By focusing on the benefits of IR, more than 16 regulators throughout the world have advanced from awareness to implementation. The 2017 research also shows how IR may help address UN Sustainable Development Goals.

Furthermore, the United States, known as the world's big brother, has established the first practitioner network for IR, known as the US-IR Community. The International Accounting Standards Board (IASB) has also reacted and stated that their conceptual framework is compatible with the IR framework. The International Federation of Accountants has also stated that IR is the future of corporate reporting. Richard Howitt, CEO of IIRC, stated in a global call for comments on IR implementation on March 1, 2017, that 1500 multinational corporations had adopted IR around the world, with adoption already being a mainstream practice in Japan and South Africa. This demonstrates the market's assessment of the IR framework as a useful instrument for facing the future.

Christian Thimann, the head of strategy, sustainability, and public affairs of the big worldwide insurance giant AXA group, stated. 'This year, we completed AXA's first IR, coinciding with the publication of the group's 2020 strategic strategy. We are overjoyed, as this is the logical result of several years of integrated thinking within the organisation. Over the years, we've been working more closely with stakeholders to discuss value creation, as well as participating in a worldwide discussion about long-termism. Furthermore, the IIRC plans to do focus groups in Australia, India, Italy, Japan, the Netherlands, Malaysia, Singapore, Spain, the United Kingdom, and the United States.

2. Literature Review

This section of the paper analyses the studies already carried on the present topic to identify the thrust area which needs more research.

- **Adams and Simnett (2011)** founds that the sustainability reports must be comprehensive, flexible, and compatible with applicable legislation dependent on the nature and scale of the organisation. They clearly recognised that Australia was one of the first governments to implement integrated reporting by third-party companies.
- **Jensen and Berg (2012)** investigated the elements that influence the application of integrated reporting practices in various nations in order to predict the need for IR models. They determined that countries with a favourable investment climate and a diverse economic financial system are more concerned with sustainability measures.
- **Main and Hespenheide (2012)** conceptually analysed the concept of integrated reporting, including the obstacles and rewards of report preparation. Marx and Dyk (2011) investigated the requirement for assurance to the information revealed in firms' sustainability reports and concluded that all information disclosed in companies' sustainability reports must be independently verified.
- **Eccles and George (2015)** examined The importance of corporate reporting was discussed, as well as the rationale for having integrated reporting processes. Eccles and Saltzman (2011) undertook a study to examine the strengths and limitations of Integrated Reporting, focusing on the role of the private, public, and third sectors in promoting sustainability practices.
- **Kiran and Goud (2015)** analysed the integration of financial and non-financial data from chosen banks. By investigating the necessity for integrated reporting in banks, elements of integrated reporting, and integrated reporting practices of selected banks, it was found that Indian banks should disclose additional parameters and transition from partial to full integration.
- **Raju (2015)** evaluated Tata Steel Ltd.'s integrated reporting practices for 2013-14 and suggested additional metrics for integrated reports. Rensburg and Botha (2014) examined the types of business and financial information used by various stakeholder groups in South Africa. For this goal, they conducted a web-based poll with 421 respondents. They eventually decided that integrated reports do not help investors make decisions.
- **Kundu (2017)** analyzed the implementation of integrated reporting in the Indian corporate scenario using SEBI's Business Responsibility Reporting Framework by examining the companies' annual reports. According to the report, all companies are following the Business Responsibility Reporting Guidelines in a good manner.

2.2 Research Gap

Based on a study of previous research, it is clear that the majority of the work is focused on reporting mechanisms and the international perspective, with only a few studies focusing on the Indian environment. To overcome this gap, the current study will focus on assessing integrated reporting methods in Indian organisations.

3. Research questions

- What is the current status of IR in Indian context?
- What is the level of compliance of IR disclosures by Indian companies with IIRC guidelines?

4. Objectives

- To analyse the current status of IR in Indian context.
- To examine the compliance level of IR disclosures by Indian companies with IIRC guidelines.

5. Methodology

The current analysis is based on secondary sources obtained from media, research publications, websites, and integrated reports of selected companies. Because IR procedures are not mandated in India, 8 Indian companies were chosen for this study using the convenience sample method (Table 1). As a result, all Indian corporations do not report or disclose information under the IR framework. The acquired data is analysed using the content analysis approach, which is the most widely utilised method for accounting research. To assess compliance, the study utilised an unweighted disclosure index. It indicates that all disclosure aspects are treated equally. The International Integrated Reporting Council guidelines were used in this investigation. We took into account human capital, as well as social and relational capital, when designing the research instrument. The study considers the integrated reports of the companies for the year 2022-23.

Disclosure Index is calculated by dividing actual number of disclosures by standard number of disclosures.

For the purpose of recording contents disclosed coding is used i.e., 1 is used if element is disclosed and 0 is used for the non-disclosure of elements.

Table-1

List of Companies Voluntarily Implementing Integrated Reporting

Sl. No.	Name of the company
1	Bharat Earth Movers Limited
2	Konark cement Limited
3	Hindustan Petroleum
4	Tata Consultancy Services Limited
5	Oil and Natural Gas Corporation Limited
6	Infosys Ltd.
7	Indian Tobacco Company Limited
8	Reliance Industry Limited

Source: self-compiled

6. Current status of integrated reporting practices in India

India is one of the world's most rapidly developing economies. Corporate reporting in India is also continuously evolving as a result of different rules and regulations imposed by governing agencies both domestically and internationally. Regulatory demands have developed in such a way that corporations are creating several different reports that satisfy diverse needs, such as:

- Annual Reports
- CSR Reports
- Business Responsibility Reports (BRR)
- Sustainability Reports as per (GRI guidelines and BRR guidelines)
- Reports showing compliance with emission and effluent standards.

The aforementioned many reports published by a single organisation cause confusion among users of both financial and non-financial information about the company. Aside from that, India's accounting rules are gradually aligning with International Accounting rules (IAS). This complicates things even more for both financial report creators and recipients. Furthermore, overseas investors have a more difficult time efficiently reviewing Indian financial reports. As a result, it is critical to have a single report under which all of the many reports can be integrated, reducing the varying requirements of different business information users. Thus, integrated reporting by the International Integrated Reporting Council (IIRC) is critical in resolving all issues raised by multiple reports.

This reporting system simplifies the reporting of disclosures through **six types of capital** that underlie any business. They are:

- **Financial Capital**
- **Manufacturing Capital**
- **Human Capital**
- **Social and Relationship Capital**
- **Intellectual Capital**
- **Natural Capital**

Integrated Reporting has two focus areas: technology and future-looking. These two IR focus areas address the inadequacies of traditional reporting, which relied on paper-based, post-mortem analysis of financial data.

6.1 IR footprints in India

In India, the Tata Group, the Mahindra Group, and Yes Bank were among the first to use internal reporting. In order to demonstrate progress in IR in India, SEBI (Securities Exchange Board of India) issued a circular in February 2017 encouraging India's top 500 corporations to embrace the International Integrated Reporting Framework. The circular is based on IOSCO principle 16, which specifies that 'these should be comprehensive, accurate, and timely disclosure of financial results, risks, and other information that is material to investor choices'.

Applicability of integrated reporting

The information boundary of integrated reporting should be based on the following two contexts:

- Regulatory bodies may enforce IR procedures on corporations: Based on present criteria. Once a corporation follows the IR, it is said to as a reporting entity under the IR. Because IR is still in its early stages in India, there are currently no established guidelines for assessing whether or not a corporation must use it. Since 2017, SEBI, India's stock market regulator, has promoted the voluntary practice of IR. As a result, the required application of IR in India is currently underway, and it is projected to become mandatory for Indian enterprises in the next years.

- Elements for effective IR practice: The disclosure aspects to be included in IR are entirely based on guidelines issued by important professional bodies dedicated to promoting IR, such as the IIRC (International Integrated Reporting Council), GRI SRs (Global Reporting Initiatives for Sustainability Reporting Standards), and others. These worldwide recommendations provide a detailed foundation for the precise aspects that will be included in Integrated Reports.

6.2 Roadblocks for IR in India

- Regulators often require organisations to provide the same information in several formats. Financial analysts struggle to make efficient decisions.
- Almost all Indian enterprises have grown into major retail outlets with digital stores. This means that data is extremely important to these companies. As a result, there is a greater reliance on new technologies, and dealing with the changes has become a significant difficulty. The decision-making aspects are based on artificial intelligence, machine learning, and big data. Thus, IR must include all of these in its scope.
- Many companies are shifting from asset-heavy to intangible-heavy operations to improve efficiency. This shift brings with it both new problems and opportunity. This indicates that the switch anticipates completely new characteristics of decision making than the traditional one. This means that these components should be approached holistically, combining and meeting investor standards, accounting rules, and being immediately related to integrated reporting.
- As previously indicated, India has several regulatory agencies with varying expectations for non-financial reporting. Each state in India has various emission and wastewater standards. This complicates non-financial reporting, and as a result, implementing IR in India is difficult because it must compensate for these obstacles. Thus, in India, it is envisioned that diverse standards will be completely aligned with the IR framework.

Table-2

Disclosure of Human Capital Elements by Selected Companies as per IIRC Guidelines

Disclosure Elements	1*	2*	3*	4*	5*	6*	7*	8*
Health and safety	1	1	1	1	1	1	1	1
Training and Programme	1	1	1	1	1	1	1	1
Hiring and Turnover	1	0	1	1	0	1	1	0
Employee Grievance	1	1	1	1	1	1	1	1
Gender Diversity	1	1	1	0	1	1	1	1
Employee Engagement	1	1	1	1	1	1	1	1
Freedom of Association	1	1	1	1	1	1	1	1
Employee satisfaction	0	1	1	0	1	1	0	1
Disclosure Index*	0.87	0.87	1	0.75	0.87	1	0.87	0.87

Source: self-compiled

Table 2 shows the disclosure index of selected companies in relation to Human Capital as per IIRC guidelines. It is evident that all the selected companies are voluntarily disclosing above 75% of Human Capital information as per IIRC guidelines which means Indian companies are also moving towards international reporting practices.

Table-3

Disclosure of Social and Relationship Capital by Selected Companies

Disclosure Elements	1*	2*	3*	4*	5*	6*	7*	8*
Details of programs	1	1	1	1	1	1	1	1
Customer satisfaction	1	1	0	1	1	1	1	0
CSR spend	1	1	1	1	1	1	1	1
Stakeholder engagement	1	1	1	1	1	1	1	1
Beneficiaries reached through CSR programs	1	1	1	1	1	1	1	1
Sustainable sourcing	1	1	1	0	1	1	1	0
Disclosure Index*	1	1	0.83	0.83	1	1	1	0.67

Source: self-compiled

Table 3 shows the disclosure index of selected companies in relation to Social and Relationship Capital as per IIRC guidelines. It is found that all the selected companies are voluntarily disclosing above 70% of Social and Relationship Capital information as per IIRC guidelines which again implies that Indian companies are moving towards international social reporting practices.

7. Findings of the Study

Regarding the study's first objective, secondary data analysis revealed that there are no mandatory rules for Integrated Reporting practices in India, although organisations are encouraged to practise integrated reporting voluntarily. Some organisations practise IR voluntarily in a positive manner, and the study believes that in the future, mandated implementation of IR is essential for Indian enterprises to promote business and financial information disclosures that are required on a global scale. Regarding the second objective, the study discovered that all the 8 selected companies are disclosing human, social, and relational capital-related information in a good manner and these companies' disclosure practices will become the motivation for other Indian companies to practise integrated reporting.

8. Conclusion

Integrated reporting is the requirement of the day since it provides all multidimensional information to various business stakeholders so that they may make their own decisions about various elements of the business. Several standards and guidelines have been developed to support IR in India. Among many standards and guidelines, IIRC guidelines stand out because they serve to harmonise integrated reporting methods at the international level. It is wonderful news that India is one of the countries pushing IR on a worldwide scale, which allows Indian enterprises to gain international recognition and a competitive advantage. The current picture in India in this regard is still in progress because enterprises are beginning to implement integrated reporting on a voluntary basis, which has made it difficult to compare financial reports. Finally, the study suggests that IR will be a tool for corporations to gain a competitive edge, but it will require a legal framework to be promoted effectively in India.

The study is based on secondary data; it does not take into account company perspectives; future research can consider company perceptions; and it only considers two capitals; subsequent research can take into account the remaining capitals.

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